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SUBJECT: DIVIDED AND AMBIVALENT: KERALA'S NEW LEFTIST
GOVERNMENT OFF TO A SLOW START

REF: CHENNAI 0960

¶11. (SBU) SUMMARY: A recent visit to Kerala one month into the new CPI(M)-led government found Chief Minister Achuthanandan's cabinet divided, slow off the mark and ambivalent about new foreign investment. Nonetheless, the government enjoys a huge majority in the legislative assembly and is solidly in place. Based on conversations with the Chief Minister, CPI(M) state secretary Pinarayi Vijayan, and other political and business leaders, Post believes that the new government will remain less than dynamic on the industrial front as well as hesitant to solve legacy issues such as Coca Cola's idle bottling plant. END SUMMARY

DEFICIT BUDGET AND A DEFICIT OF IDEAS

¶12. (SBU) On June 26, Consul General Hopper visited Kerala's capital Thiruvananthapuram for the first time after the CPI(M)-led Left Democratic Front (LDF) government came to power in May. During the visit, the government was in the midst of introducing its budget for the coming year. With Kerala facing a worsening budget deficit, the budget message included a plan to amend the Kerala Fiscal Responsibility Act of 2003, which it described as "imposed by the Central Government as part of globalization." Rejecting the Union Government's insistence on reducing expenditures, the Finance Minister said he would instead raise revenue to see the state through this financial crisis. He announced a new schedule of "luxury goods" to be taxed at a higher 20 percent rate which includes refrigerators, washing machines, and of course, soft drinks such as Pepsi and Coca Cola. The budget package also announced the formation of an Agricultural Debt Relief Commission, a Farmer's Commission to ensure farm price stability, and some tax incentives to the agriculture sector.

¶13. (SBU) Although the budget recognized the need to have a "quantum leap in private investment" and welcomed "foreign investment which helps in creation of new technologies and employment opportunities," there was no indication of any policy initiatives in the budget package to increase investment in the state. Observers told Post the budget lacked a clear vision and broke relatively little new ground. They commented that the first one or two budgets of any new government offer the best opportunities for setting a new course and taking bold steps. The Achuthanandan government will have only one more chance to do so before the run-up to the 2009 parliamentary election limits its room to maneuver.

PRIORITIES: AGRICULTURE, IT, TOURISM

14. (SBU) Octogenarian Achuthanandan, with little formal education and almost no previous administrative experience, came across in our meeting as being hand-held by his own staff, most of them political appointees. He reiterated the government's intention to revive agriculture and traditional industry such as the labor intensive coir, cashew and beedi (local cigar) industries. He did mention information technology and tourism as two other sectors the government would promote but had no definite plans for promotion of either. Asked specifically whether his government would continue to support the previous government's project to facilitate Dubai Internet City's IT infrastructure project in Cochin, Achuthanandan expressed reservations. According to his aides, the government would not part with the existing Cochin IT park to the Dubai company nor give any concessions on the market price of land. On the higher education sector, while the CM's aides pointed to possible collaborations with U.S. universities, the Chief Minister said only that they can be looked into.

A TEST CASE: THE COCA COLA ISSUE

15. (SBU) We probed the government's attitude toward Coca Cola, whose bottling plant in Achuthanandan's constituency district of Palakkad has been closed since 2004. While the Chief Minister told CG that he had no solution to offer, his aides explained that both on the issues of ground water depletion and environmental pollution, there was no way out

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in sight. At the Communist Party state headquarters, where the sparse decorations included an anachronistic line-up of portraits of Marx, Engels, Lenin and Stalin, State Secretary Pinarayi Vijayan told us that he has "no good advice" to give Coke because "100 percent of the local people of the area" are opposed to the plant. When former CPI(M) Finance Minister Sivadasa Menon began to explain that the anti-Coke struggle was not actually initiated by the party but by certain groups of "environmental terrorists (extremists)," Vijayan intervened to point to the unanimous local opposition. Separately, Coca Cola General Manager Vikas Kochhar recently informed Post that they too met officials in Thiruvananthapuram recently, and in light of impressions gathered, Coke has decided not to push hard on the issue and risk provoking the new government. According to Kochhar, the phenomenal media attention on the issue could potentially affect operations in other Indian states if it were allowed to spill over.

"WE WILL NOT PULL DOWN THE UPA GOVERNMENT"

16. (SBU) Vijayan, who is privy to party discussions at the politburo level, informed us that the CPI(M) has no intention of pulling down the UPA government although the party will continue to oppose the "anti-people policies of the Central Government" and also its foreign policy. Vijayan and Menon believe that the shift of the religious minorities of Kerala towards the LDF was one of the major factors behind the massive majority the front secured in the May assembly elections.

CONGRESS: "THEY SWAYED THE SENTIMENTAL MUSLIMS"

17. (SBU) Former Chief Minister and Congress leader Oommen Chandy confirmed that the CPI(M) had made inroads into Muslim vote banks by highlighting the Iran and Iraq issues.

The CPI(M) criticized Congress for supporting U.S. policies and for the reception given to President Bush during his March visit to India. They exploited the sympathy for the Kerala Muslim leader Abdul Nasser Madany who has been in Tamil Nadu jail for seven years pending disposal of the case against him related to the 1998 terrorist bombings in Coimbatore. According to Chandy, the CPI(M) effectively swayed the "sentimental" Muslims of Kerala through communal propaganda. Chandy pointed out that the CPI(M) is a divided house, with the dominant faction remaining deeply opposed to the Chief Minister. "They have not given him the freedom to allocate the ministers' portfolios," he said but added that the Congress has no intention of pulling down the government midterm.

IT IS A DIVIDED HOUSE, ADMITS LEFTIST LEGISLATOR

¶8. (SBU) Conversation with the LDF-supported independent legislator Alphonse Kannamthanam (protect) confirmed the continuing infighting within the Kerala CPI(M). Former IAS officer Kannamthanam, who quit his government post to run for the assembly, claimed he is part of the dominant "official" faction opposed to the Chief Minister. According to Kannamthanam, the official faction is more liberal on economic policy while the Chief Minister remains a party hardliner. He believes this dominant faction will possibly remove the Chief Minister "after one or two years".

POLICY CORRECTIONS NOT IN SIGHT

¶9. (SBU) COMMENT: The divided and administratively inexperienced new team of leftist ministers in Kerala seems ill-equipped to lead Kerala through the policy corrections needed to attract private investment. Despite its impressive achievements on social and quality of life indicators, Kerala continues to lag behind the other three southern states on the industrial front. While existing non-controversial businesses have little to fear, new investors might wait for the cabinet to sort out its industrial policy and shed its ambivalence before considering major new investments in the state. END COMMENT

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